



DATE: August 14, 2002

SESA ISSUANCE NO.: 02-33

SUBJECT: Fiscal Year (FY) 2003 State Workforce Agency (SWA) Unemployment Insurance (UI) Resource Planning Targets and Guidelines

1. **Purpose.**

- a. To provide preliminary FY 2003 dollar and staff year base resource planning targets for UI operations to be used in planning and developing State Quality Service Plans (SQSPs);
- b. To provide general guidelines for FY 2003 resource planning; and
- c. To explain the methodologies used to allocate base resources.

2. **Reference.** ET Handbook No. 336, 17th Edition, State Quality Service Plans Planning and Reporting Guidelines; ET Handbook No. 410, Resource Justification Model.

3. **FY 2003 Funding Level.** The President's FY 2003 budget request is \$2,727,688,000, a decrease of \$60,298,000 from the FY 2002 appropriation. The budget request includes a decrease for above-base claims workloads and an increase for workload growth in the number of subject employers and wage records. The request does not include an increase for inflation, projected at 1.8 percent.

4. **Changes for FY 2003.**

a. **Resource Justification Model (RJM).** The cost factors (minutes per unit (MPU) values, annual hours worked, personnel compensation rates, and non-personal services dollars) and non-workload staff years for FY 2003 are drawn from the RJM data collection submitted in 2002. The RJM methodology is explained in ET Handbook No. 410. The effect of the changes to the former methodology is explained in paragraph 6 below.

b. **Enhanced Integrity Activities.** The request includes funding for enhanced integrity activities at the FY 2002 level of \$35 million; however, these funds are included in the states' allocations and are not separately identified.

c. **Bottom-line Reduction.** There is no across-the-board bottom-line reduction for FY 2003. Instead, the MPU values and non-personal services dollars from the RJM data collection have been reduced to fit the RJM submission total of \$2,632,727,577 within the availability of \$2,227,128,117. Of the \$405,599,460 difference, \$289,064,094 was taken from workload staff years and \$116,535,366 was taken from non-personal services dollars. The reduction was taken in proportion to the amount of dollars in

workload staff years and non-personal services to the sum of these two figures before the reduction. Workload staff years represented 71.28 percent and non-personal services represented 28.72 percent of the sum. See also paragraphs 6.a.(1)(c) and 6.b.

5. **Highlights of Base Planning Targets.**

a. **UI Economic Assumptions.** The FY 2003 UI planning targets reflect the economic assumptions used in the President's budget request. The key assumptions for FY 2003 affecting workloads and administrative costs are:

	<u>Percent</u>
- Average Civilian Total Unemployment Rate	5.6
- Average Insured Unemployment Rate	2.6

b. **UI Base Workload Level.** The FY 2003 national base claims-related workload was formulated at 2.3 million average weekly-insured unemployment (AWIU).

c. **End-of-Year Carryover for Grant Funds.** States may obligate FY 2003 grant funds through December 31, 2003. In addition, the President's FY 2003 request includes language that allows states to obligate UI funds through September 30, 2005, if such obligations are for automation acquisitions. Therefore, the FY 2003 funding period ends on December 31, 2003, for UI regular allocations, and on September 30, 2005, for automation acquisitions.

d. **Postage.** The FY 2003 UI targets identify a separate UI postage allocation. A separate line on Attachment I reflects an amount withheld for federal payments to the U.S. Postal Service (USPS). This UI postage allocation is for information only. The current methodology uses projected base weeks claimed and subject employer workloads, which are totaled for each state; proxy base postage resources are calculated on a pro rata basis based on each state's share of the total workload. States will continue to use the penalty mail system during FY 2003, and the Department will continue to pay the state postage costs directly to USPS.

States should continue to use commercial mail methods for mail that pertains to both employment security and non-employment security business. In such instances, the Department will reimburse states via supplemental budget requests (SBR) for the employment security share of the cost.

6. **Allocation Methodologies.**

a. **UI Base Staff.**

(1) **Workload Functions Allocation Methodology.** The FY 2003 methodology seeks to achieve three objectives to the greatest extent possible: equitably allocate resources; enable resources to shift with workloads; and avoid abrupt shifts of resources among states from year to year.

(a) **Data Sources.**

1. **Time Factors.** The MPU values are taken from the FY 2001 data submitted by states in the RJM data collection, with the two following exceptions

a. The FY 2002 tax MPU value was used for those states that will have discontinued collecting non-UI taxes along with UI taxes in FY 2002.

b. For two states with data that the Regional Office was unable to verify, MPU values were used that are the lesser of the FY 2001 MPU values or the mid-point of all states' values.

2. Work Hours. The hours per staff year are from the FY 2001 data in the RJM data collection.

(b) Workload Forecasts. Using historical data, the National Office built statistical models that forecasted total workloads for the four broadband claims workload items (initial claims, weeks claimed, nonmonetary determinations, and appeals) for each state. The development of mix-level workload has been discontinued because these data are no longer needed.

The FY 2003 base workloads were derived using the annual average concept. Under this approach, the total annual workloads were projected for each state for each item, and then were reduced to budgeted national total base workloads using a straight proportional reduction. This method, as opposed to the low-quarter method, does not penalize states with wide seasonal swings in workload.

(c) Determination of Allowable Minutes Per Unit Factors. The percentage of fully-funded MPUs for FY 2003 remained at 10 percent, a level that ensures that sufficient resources are available to fully fund a uniform level of MPUs (the lowest five) across all workload activities. For FY 2003, the calculation using states' unreduced MPUs from the RJM data collection yielded 34,006 staff years. To fit the targets within the funding availability, the allocated MPUs were developed for the six base workload activities by reducing the RJM MPUs for most states so that the number of targeted staff years equaled 28,629 staff years. MPU reductions in each of the six activities were made as follows:

1. MPUs were arrayed from the highest to the lowest MPU value.
2. The lowest five MPUs were not reduced.
3. Within each of the broadband categories, the difference was calculated between each of the top 48 MPUs and the highest MPU to be fully funded. Differences were then reduced by a percent determined by available resources.
4. States with smaller workloads could be "forgiven" up to 25 percent of the reduction obtained in step 3 above. The percent of the cut that a state could be forgiven was determined by the relationship of the state's workload to the largest workload among states being reduced.
5. The budgeted MPU was obtained by adding the difference from step (3) to the highest fully-funded MPU, as adjusted by step 4 above.

(d) Eligibility Review Program. In prior years, weeks claimed and eligibility review workload, MPU values, and staff years were separately identified in the base allocations. For FY 2003, these figures are specified only for weeks claimed; eligibility review data are included in the weeks claimed data.

(2) Non-Workload Staff Years Allocation Methodology. Staff years for non-workload functions are drawn from the FY 2001 data in the RJM data collection. No reduction was applied to these staff years. These activities are:

- (a) Benefit Payment Control (BPC)
- (b) UI Performs
- (c) UI Support (including internal security, benefit and appeals travel, and special interstate activities, and Interstate Connection Network (ICON) staff years)
- (d) Administrative Staff and Technical Services

b. Personnel Compensation Costs. The FY 2003 personnel compensation rates were determined for UI base, above base, and Administrative Staff and Technical Services (AS&T) staff by using each state's FY 2003 salary and benefit rates for these categories from the RJM data collection.

c. Non-Personal Services (NPS). The FY 2003 NPS allocation was based on the states' FY 2003 data in the RJM data collection. The states' NPS submission amounted to \$756,162,809. Each state's NPS amount was reduced by 15.41 percent across-the-board to take the \$116,535,366 reduction explained in paragraph 4.d. The result is NPS funding of \$639,627,443.

d. State Retirement Funds. These resources provide funding for the UI share of the annual amortization cost of the unfunded liability for state agencies with independent retirement plans. The dollar levels are based on the most recent actuarial studies from each agency involved.

e. Hold-Harmless Provision. In FY 2003, a "stop-gain" of 20 percent was imposed on states that would have gained more in total base dollars from FY 2002, with a resulting "stop-loss" of 6.84 percent on states that would have lost more in total base dollars. This adjustment is shown on a separate line in Attachment II.

7. **General Guidelines for Above-Base Workload Resource Levels**. The State Administration budget activity includes a reserve that may be used for above-base workload and law changes; however, the President's budget request does not specifically include funds for law changes.

The National Office will use the quarterly hours data on the UI-1, the allocated claims activity staff years paid, and the allocated annual MPU values in the FY 2003 above-base certification process.

a. Above-Base Overhead. The FY 2003 above-base overhead percentage for regular UI will be provided after the appropriation is enacted. The above-base overhead percentage for Trade activity will remain at 19 percent because it is not considered an above-base activity.

b. Above-Base Instructions. General instructions for completing UI-3 reports are in ET Handbook No. 336, Chapter II. Specific implementation procedures concerning the above-base certification process will be issued later this year in a SESA Issuance promulgating the final FY 2003 UI allocations.

8. **Standard Form (SF) 424**. Instructions for completing these forms are in ET Handbook No. 336, Chapter I. The forms may be filled out online at www.sba.gov/library/forms.html. The National and Regional Office will review the SF 424 only to ensure that total UI dollars are the same as the allocated levels. Only states that vary the quarterly number of claims activity staff years paid should submit the SF 424A and show quarterly distribution in item 23 (Remarks) of the form. All states should submit the SF 424B.

9. **Bottom-Line Authority**. The allocation methodology is a very detailed process that determines the funding level for each state; however, the assumptions made in the methodology in arriving at that level are not binding on the state agencies' management. Since FY 1987, states have had full authority to shift resources among UI program categories as they deem appropriate and necessary to manage their UI programs to meet established program goals and requirements. Thus, states have the flexibility to move UI resources among UI program categories, among quarters within a fiscal year, and among specific cost categories. States are held accountable on a bottom-line basis, giving states the discretion to use UI administrative resources to meet their assessment of needs and to meet UI performance requirements. The only exception to bottom-line authority is that states may not change the staff year level in the claims activities category from the allocated staff year level. This is to ensure that states do not earn more above-base resources than they would otherwise have been entitled to earn.

10. **Action Required**. SESA Administrators are requested to:

a. Provide the above instructions to appropriate personnel as soon as possible after receiving this Issuance.

b. Closely review the attached tables and notify the Regional Office of any problems (**Attn: OWS**), *by August 22, 2002*.

c. Please submit to the Regional Offices the FY 2003 SF 424, 424A, and 424B with your SQSP submission.

11. **Inquiries**. Direct questions to Rod Anderson at (617) 565-2226. Direct postage questions to Jim Ring at (617) 565-2218.

12. **Attachments**.

I. State Agency Planning Targets (standard format)

II. FY 2003 Detail State Base Staff Planning Levels

III. Back-up Material for Allocation of FY 2003 UI Base Staff

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